rates have already resumed their inexorable upward march. Price inflation is the consequence of the enormous monetary inflation pumped in by the Federal Reserve for several years before the spring of 1987, and interest rates are therefore bound to rise as well. Moreover, the Fed, as in many other matters, is caught in a trap of its own making; for the long-run trend to equalize interest rates throughout the world is a drive to equalize not simply money, or nominal, returns, but *real* returns corrected for inflation. But if foreign creditors and investors begin to receive dollars worth less and less in value, they will require higher money interest rates to compensate—and we will be back again, very shortly, with a redoubled reason for interest rates to rise.

In trying to explain the complexities of interest rates, inflation, money and banking, exchange rates and business cycles to my students, I leave them with this comforting thought: Don't blame *me* for all this, blame the government. Without the interference of government, the entire topic would be duck soup.

How the Market Creates Jobs and How the Government Destroys Them

Walter Block

The Creation of Jobs

If the media tell us that "the opening of XYZ mill has created 1,000 new jobs," we give a cheer. When the ABC company closes and 500 jobs are lost, we're sad. The politician who can provide a subsidy to save ABC is almost assured of widespread public support for his work in preserving jobs.

But jobs in and of themselves do not guarantee well-being. Suppose that the employment is to dig huge holes and fill them up again? What if the workers manufacture goods and services that no one wants to purchase? In the Soviet Union, which boasts of giving every worker a job, many jobs are just this unproductive. Production is everything, and jobs are nothing but a means toward that end.

Imagine the Swiss Family Robinson marooned on a deserted South Sea island. Do they need jobs? No, they need food, clothing, shelter, and protection from wild animals. Every job created is a deduction from the limited, precious labor available. Work must be rationed, not created, so that the market can create the most product possible out of the limited supply of labor, capital goods, and natural resources.

The same is true for our society. The supply of labor is limited. We must not allow government to create jobs or we lose the goods and services which otherwise would have come into being. We must reserve precious labor for the important tasks still left undone.

Alternatively, imagine a world where radios, pizzas, jogging shoes, and everything else we might want continuously rained down like manna from heaven. Would we want jobs in such a utopia? No, we could devote ourselves to other tasks—studying, basking in the sun, etc.—that we would undertake for their intrinsic pleasure.

Instead of praising jobs for their own sake, we should ask why employment is so important. The answer is, because we exist amidst economic scarcity and must work to live and prosper. That's why we should be of good cheer *only* when we learn that this employment will produce things people actually value, i.e., are willing to buy with their own hard-earned money. And this is something that can only be done in the free market, not by bureaucrats and politicians.

The Destruction of Jobs

But what about unemployment? What if people want to work, but can't get a job? In almost every case, government programs are the cause of joblessness.

Minimum Wage. The minimum wage mandates that wages be set at a government-determined level. To explain why this is harmful, we can use an analogy from biology: there are certain animals that are weak compared to others. For example, the porcupine is defenseless except for its quills, the deer vulnerable except for its speed.

In economics there are also people who are relatively weak. The disabled, the young, minorities, the untrained—all are weak economic actors. But like the weak animals in biology, they have a compensating advantage: the ability to work for lower wages. When the government takes this ability away from them by forcing up pay scales, it is as if the porcupine were shorn of its quills. The result is unemployment, which creates desperate loneliness, isolation, and dependency.

Consider a young, uneducated, unskilled person, whose productivity is $2.50 an hour in the marketplace. What if the legislature passes a law requiring that he be paid $5 per hour? The employer hiring him would lose $2.50 an hour.

Consider a man and a woman each with a productivity of $10 per hour, and suppose, because of discrimination or whatever, that the man is paid $10 per hour and the woman is paid $8 per hour. It is as if the woman had a little sign on her forehead saying, "Hire me and earn an extra $2 an hour." This makes her a desirable employee even for a sexist boss. But when an equal-pay law stipulates that she must be paid the same as the man, the employer can indulge his discriminatory tendencies and not hire her at all, at no cost to himself.

Comparable Worth. What if government gets the bright idea that nurses and truck drivers ought to be paid the same wage because their occupations are of "intrinsically" equal

value? It orders that nurses' wages be raised to the same level, which creates unemployment for women.

Working Conditions. Laws which force employers to provide certain types of working conditions also create unemployment. For example, migrant fruit and vegetables pickers must have hot and cold running water and modern toilets in the temporary cabins provided for them. This is economically equivalent to wage laws because, from the point of view of the employer, working conditions are almost indistinguishable from money wages. And if the government forces him to pay more, he will have to hire fewer people.

Unions. When the government forces businesses to hire only union workers, it discriminates against non-union workers, causing them to be at a severe disadvantage or permanently unemployed. Unions exist primarily to keep out competition. They are a state-protected cartel like any other.

Employment Protection. Employment protection laws, which mandate that no one can be fired without due process, are supposed to protect employees. However, if the government tells the employer that he must keep the employee no matter what, he will tend not to hire him in the first place. This law, which appears to help workers, instead keeps them from employment. And so do employment taxes and payroll taxes, which increase costs to businesses and discourage them from hiring more workers.

Payroll Taxes. Payroll taxes like Social Security impose heavy monetary and administrative costs on businesses, drastically increasing the marginal cost of hiring new employees.

Unemployment Insurance. Government unemployment insurance and welfare cause unemployment by subsidizing idleness. When a certain behavior is subsidized—in this case not working—we get more of it.

Licensing. Regulations and licensing also cause unemployment. Most people know that doctors and lawyers must have licenses. But few know that ferret breeders, falconers, and

strawberry growers must also have them. In fact, government regulates over 1,000 occupations in all 50 states. A woman in Florida who ran a soup kitchen for the poor out of her home was recently shut down as an unlicensed restaurant, and many poor people now go hungry as a result.

When the government passes a law saying certain jobs cannot be undertaken without a license, it erects a legal barrier to entry. Why should it be illegal for anyone to try their hand at haircutting? The market will supply all the information consumers need.

When the government bestows legal status on a profession and passes a law against competitors, it creates unemployment. For example, who lobbies for the laws which prevent just anyone from giving a haircut? The haircutting industry—not to protect the consumer from bad haircuts, but to protect themselves against competition.

Peddling. Laws against street peddlers prevent people from selling food and products to people who want them. In cities like New York and Washington, D.C., the most vociferous supporters of anti-peddling laws are established restaurants and department stores.

Child Labor. There are many jobs that require little training—such as mowing lawns—which are perfect for young people who want to earn some money. In addition to the earnings, working also teaches young people what a job is, how to handle money, and how to save and maybe even invest. But in most places, the government discriminates against teenagers and prevents them from participating in the free enterprise system. Kids can't even have a street-corner lemonade stand.

The Federal Reserve. By bringing about the business cycle, Federal Reserve money creation causes unemployment. Inflation not only raises prices, it also misallocates labor. During the boom phase of the trade cycle, businesses hire new workers, many of whom are pulled from other lines of work by the

higher wages. The Fed subsidy to these capital industries lasts only until the bust. Workers are then laid off and displaced.

The Free Market. The free market, of course, does not mean utopia. We live in a world of differing intelligence and skills, of changing market preferences, and of imperfect information, which can lead to temporary, market-generated unemployment, which Mises called "catallactic." And some people choose unemployment by holding out for a higher paying job. But as a society, we can insure that everyone who wants to work has a chance to do so by repealing minimum wage law, comparable worth rules, working condition laws, compulsory union membership, employment protection, employment taxes, payroll taxes, government unemployment insurance, welfare, regulations, licensing, anti-peddling laws, child-labor laws, and government money creation. The path to jobs that matter is the free market.

The National Bureau and Business Cycles

Murray N. Rothbard

Not only is there confusion about whether or not a recession is imminent, but some economists think that we're already *in* one. Thus, Richard W. Rahn, chief economist for the U.S. Chamber of Commerce, recently declared: "The economic slowdown is not coming: it's here, and soon it will be gone." Not knowing whether or not we're in a recession is not as silly as it sounds. It takes a while for data to come in, and then to figure out if a decline is a mere glitch or if it constitutes a new trend. But the natural confusion is compounded by the thrall in which virtually all economists, statisticians,